

Private Equity

Making Sense of Impact Private Equity

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(1) Introduction

In today's newsletter, we explore the rise of impact private equity (PE), an investment strategy that aims to generate positive social and environmental change alongside financial returns. Over the past two decades, the impact investing market has undergone substantial growth, attracting increased interest from private equity investors. As impact PE gains popularity, an important question arises: can it achieve competitive financial returns while delivering meaningful impact? This newsletter explores the market landscape, its financial performance and the challenges of balancing purpose and profitability.

(2) Investment Model & Market Landscape

Impact PE works in a similar way to traditional PE. Investors acquire stakes in private companies, with the aim of improving their performance and growing the business over a 5-10-year investment period. The main difference from traditional PE is that in impact PE, financial performance is not the only objective. Impact PE funds also target measurable social or environmental outcomes, such as lower carbon emissions or better access to healthcare. This means that potential investments are judged not only on the returns they can generate but also on the positive impact they create. This influences which companies and sectors a fund invests in, as well as how portfolio companies are managed during the holding period. Rather than treating impact as a separate environmental, social and governance (ESG) component, it becomes part of the investment strategy and value creation process.

There are three main reasons why impact investing suits PE in particular. Firstly, general partners (GPs) often take controlling stakes in companies and can therefore shape their strategy according to impact objectives. Secondly, capital is committed for many years, so companies can work on large environmental and social problems without the pressure of achieving short-term results. Thirdly, GPs work closely with management, allowing them to tie part of management's compensation to impact targets, such as emission cuts or patients reached.

There are many sectors in which impact PE operates, but the vast majority of capital is deployed into opportunities where a social or environmental need is being addressed by the business and which align with long-term commercial opportunities. Energy is the most obvious example, with huge amounts of capital being deployed into renewable energy generation, battery storage and associated grid infrastructure to enable the transition from fossil fuels.

The different strategies used in impact PE investing often depend on the maturity of the company. For example, growth equity can help an established business to expand into new markets or increase its capacity. On the other hand, buyout investors can take larger positions in more established companies and use their ownership to change operations or strategy. In both cases, the link between impact and the underlying business model is important. For example, a clean-energy company can increase its impact as it grows by selling more of its technology, meaning that commercial expansion and impact can reinforce one another. Where that link is weaker, funds may face greater difficulty showing that the impact is both meaningful and financially attractive.

The Global Impact Investing Network (GIIN), the main industry body that tracks the impact investing market, estimates the total size of the market at $1.76 trillion in 2026. The estimate includes various asset classes, not only PE, but PE remains the largest asset class.

As shown in the 2026 GIIN survey, PE accounted for 28% of impact assets, and 69% of impact investors included at least one investment in the asset class. Similar to traditional PE, the capital comes from pension funds, asset managers and family offices, and is allocated to impact funds such as TPG's Rise Fund, KKR's Global Impact Fund and EQT Future.

However, the growth has been slowing down. The GIIN reports that the impact market has been growing about 6% annually, compared with more than 21% before 2024. This is likely due to higher interest rates, slower exits and a difficult fundraising environment, making investors more selective in the investments they make. Even so, the market keeps growing, which shows that impact investing has moved well beyond a niche.

(3) Financial Performance

The first serious benchmark dates from 2015, when Cambridge Associates and the GIIN studied 51 impact funds and their financial performance. Impact funds raised between 1998 and 2004 showed stronger performance than conventional funds from the same years. However, more recent data shows signs of weakness, with funds raised between 2005 and 2020 delivering a net internal rate of return (IRR) of 5.4%, close to public markets and below the PE market as a whole. No single benchmark covers the asset class and samples are small, so every figure comes with that limitation.

Investors themselves report different results. In the GIIN's 2025 survey, private equity investors said their impact assets returned 11%, compared with 7% for their traditional assets. This shows a difference between investors' self-reported returns and actual fund returns. It therefore remains unclear whether choosing impact PE requires sacrificing returns.

Overall, the evidence does not show that impact PE consistently performs better or worse than traditional PE. Two factors, however, are most relevant when analyzing differences in performance. Firstly, returns differ widely between individual funds, which makes manager selection a key driver of what investors ultimately earn. Secondly, the sector matters. A 2017 study of private impact funds by Cambridge Associates and the GIIN found that energy impact PE funds outperformed traditional funds, while sectors such as real estate and infrastructure performed worse.

(4) Impact & Challenges

Funds measure impact in different ways, depending on what the investment goal is. Based on the goals set, key performance indicators (KPIs) tailored to the strategy or business model are defined. For example, a fund that backs clean energy can measure how much CO2 is avoided when that energy replaces fossil fuels. A fund backing a microfinance lender can measure how many people without access to traditional bank accounts can now take on loans. A fund financing affordable housing can count how many homes were delivered below market rent, and a fund investing in a clinic network can count how many patients were treated in areas that had no provider before. Investors then set targets for each KPI and track progress against them.

Whether these measurements hold up is a separate question. Independent firms such as BlueMark now check how investors measure, manage and report impact, comparing them with their peers. BlueMark's 2025 Making the Mark report, which covered over 180 investors and fund managers, found a clear gap. Investors are generally good at setting impact goals when they invest, but they struggle to show reliable results by the time they exit. Reporting was the weakest area, and the reliability of reported

data scored particularly low. In short, the industry plans for impact better than it proves it happened.

Furthermore, several risks are holding the sector back. The first is political and regulatory uncertainty. Impact definitions, disclosure rules and incentives differ between countries and change with political priorities, making it harder to plan impact investments and track performance. The second is impact washing: as "impact" is often loosely defined, a fund may promote social or environmental goals without making real changes or showing results. This misleads investors and weakens trust in the sector. Measurement makes both problems worse, as impact is often long-term, indirect and hard to link to a single investment. In addition, the KPIs set at the start of an investment may not capture the full impact, which often only becomes visible years later.

Liquidity is also increasingly becoming a challenge for the impact PE sector. According to the Stanford Social Innovation Review, if a fund backs something the market is not already funding, there are often few buyers when it wants to sell. Most impact capital therefore sits in private companies, which have been hard to exit since the initial public offering (IPO) market slowed in 2022. Impact assets have also tended to lock up capital for longer periods, clashing with expectations of investors longing for liquidity.

Secondaries are the most promising solution. In a secondary, one investor buys another investor's existing stake, so the seller gets liquidity without the underlying asset being sold. This is a large market in traditional private equity, but in impact, it barely exists. According to New Private Markets, less than 1% of impact capital goes into secondaries. Some argue that buying an existing stake does less good than funding something new. Others point out that it returns money to early investors, who can then back new impact businesses, and that it gives cautious investors an easier way to start investing in impact.

None of this means impact PE cannot work. AgilityEco, a UK company that makes homes more energy efficient, is one example. Bridges Fund Management invested in 2019 through its Evergreen fund and sold its stake in 2024. With this long-term backing, the company tripled its annual revenue to over £100 million, and in 2022/23 alone it upgraded the homes of 36,000 low-income households. Bridges reported a 3.4x return on its investment. These figures come from Bridges itself, and one successful deal does not prove the case for the whole sector, but it shows that growth and impact can go together.

(5) Conclusion

This newsletter asked whether impact PE can deliver competitive returns while creating meaningful impact. The evidence suggests it can, but not consistently. Returns vary widely and depend more on the manager and the sector than on the impact label. Measuring impact is still the weak point, especially at exit, and limited liquidity keeps many investors away. Looking ahead, the energy transition, healthcare and education will keep attracting private capital, even if higher financing costs and slower exits make investors more selective. The future role of impact PE will depend less on how much capital it raises and more on whether it can prove both its returns and its impact.

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